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### Should users pay the toll for Australia's infrastructure problem?

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## Should users pay the toll for Australia's infrastructure problem?

### Abstract

Australia spends more on infrastructure today than at any stage in its history. Yet governments are unable to meet demand and don't expect ever to do so. What can governments do to keep up with escalating demand and community expectations for infrastructure? Reserve Bank assistant governor Philip Lowe says tolls and levies could be the answer to more efficiently funding the transport infrastructure we need - infrastructure he says would boost productivity and improve living standards. Tolls are just one issue likely to be debated as part of the Productivity Commission's current inquiry into infrastructure costs, which is considering how infrastructure is funded and financed by both the Commonwealth and the states. Governments trying to fix the infrastructure backlog face a number of constraints including money, suitable land access and community buy-in. Historically, Australia is a large investor in infrastructure with per capita spending of about A\$18,500 pa in the past decade. This means the nation has pulled ahead of the OECD, reflecting two mining booms and nation building public spending.

### Keywords

should, problem, users, pay, toll, australia, infrastructure

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# Should users pay the toll for Australia's infrastructure problem?

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Governments are failing to keep up with infrastructure demand, but are tolls the answer? John Pryke/AAP

Australia spends more on infrastructure today than at any stage in its history. Yet governments are unable to meet demand and don't expect ever to do so. What can governments do to keep up with escalating demand and community expectations for infrastructure?

Reserve Bank assistant governor Philip Lowe [says](#) tolls and levies could be the answer to more efficiently funding the transport infrastructure we need - infrastructure he says would boost productivity and improve living standards.

Tolls are just one issue likely to be debated as part of the Productivity Commission's current [inquiry](#) into infrastructure costs, which is considering how infrastructure is funded and financed by both the Commonwealth and the states.

Governments trying to fix the infrastructure backlog face a number of constraints including money, suitable land access and community buy-in.

Historically, Australia is a large investor in infrastructure with per capita spending of about A\$18,500 pa in the past decade. This means the nation has pulled ahead of the OECD, reflecting two mining booms and nation building public spending.

## **Gridlock frustrates**

At the same time congestion in Australia's major cities continues to escalate with gridlock on roads impacting passenger and freight logistics. This situation reflects poorly on project

selection processes and willingness to choose infrastructure that lifts national productivity. For example, renovating existing infrastructure and shifting demand from the peak to the shoulder period can often have superior productivity impacts compared with building greenfield assets.

While Australia has a strong case to build more infrastructure, it must do so with a great deal more discipline and clear purpose towards the long term national interest.

Prioritising projects with the highest cost benefit ratios is fundamental. At the same time we must recognise that Australia has erred on this front, which has come at a cost to the public. These projects are typically in the category “too much, too late,” such as gold plating electricity distribution networks on the east coast and the South East Queensland water grid.

If more road and public transport investment is to occur, governments should also focus on how they will service private capital during the long period of investment in infrastructure. This means a willingness to allow prices to reflect full cost recovery for the infrastructure provided, permit prices to reflect the incentive to invest and where appropriate use the government’s balance sheet to fund shadow tolls where a user charge is not appropriate.

## **Productivity matters**

Better infrastructure for Australia should be anchored by a clear objective of lifting national productivity. This clarity of objective has been missing which has made it difficult for governments to be purposeful and consistent in their infrastructure decisions.

To that end the regulatory system requires reform, as it must provide the right price signals and incentives to make the best use of existing infrastructure. Tolls and user charges can have a more fundamental role to play in shaping demand and helping to direct where investment is needed to lift productivity growth.

Of course a toll should always be a fee for a defined level of service, and the community has the right to expect choice in the services available. The problem is that infrastructure often fails this test to the detriment of business and the community.

## **Tolls need to be justified**

It is notable that the M1, M2, M4 and M5 toll roads in Sydney all originally demonstrated great benefit to commuters with faster travel time. But the reality is that now each of these toll roads has a peak hour exceeding 10 hours per day; slow speed and uncertain travel time is the norm.

To address this situation, state and federal infrastructure agencies need to enshrine customer service benchmarks that govern lifetime performance of major assets and networks. Government and the private sector concession holders will then require a framework to sustain them together.

The Australian community expects globally competitive transit times during the peak hour. Using tolls to help fund transport infrastructure is reasonable but without service benchmarks commuters are not assured of value for money; a toll becomes just another tax.

Tolls and user charges are not a panacea without fundamental institutional reform. Infrastructure must perform a service to the community that is relevant and compelling in order to justify a user charge in the first place. This is one of the missing ingredients to a better infrastructure future for Australia.